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Johnson, Henry

Underwood

The currency

[Washington]

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OFFICE OF  
THE CLUB  
201 W. 11th St., New York,  
NEW YORK

The Currency.

SPEECH

OF

HON. HENRY U. JOHNSON,  
OF INDIANA.

IN THE HOUSE OF REPRESENTATIVES,

Wednesday, December 19, 1894.

The House being in Committee of the Whole on the state of the Union, and having under consideration the bill (H. R. 8149) to amend the laws relating to national banking associations, to exempt the notes of State banks from taxation upon certain conditions, and for other purposes—

Mr. JOHNSON of Indiana said:

Mr. CHAIRMAN: It seems to be quite fashionable in certain quarters just now to speak in terms of very great disparagement of the existing banking and currency system of the country. There are those who denounce it in the severest language and who are unwilling to admit that it possesses any merit whatsoever. This class is so pregnant, sir, with the idea of demolishing the present system that it has very little mind left to suggest anything to take its place after it is overthrown. It is quite evident to me that if we are to have any currency and banking legislation worthy of a place upon the statute book, it is not to be obtained from such a source, but must be sought for in some element which has not entirely eliminated common fairness, common prudence, and common sense, and which is capable of a nicer sense of discrimination and a broader catholicity of thought. It may not be improper for me to call the attention of the class of people to whom I have referred to the fact that, whatever defects it may possess, the existing banking and currency system has always answered reasonably well as long as the revenues of the Government were equal to its expenditures, and that it is only after failing revenues have precipitated a great deficiency in the Treasury that the imperative need of legislation upon this subject has confronted us. I shall not attempt, sir, to locate the responsibility for this deficit. To do this might subject me to the charge of partisanship, and it is my purpose to avoid discussing the question now before the committee from a mere party standpoint so far as I possibly can.

Mr. Chairman, the national banking and currency system was not all devised at once. It was created at different times. It was, if I may be allowed the expression, enacted by piecemeal. Some portions of it originated while the country was in the throes of

the great civil war. Other portions of it came into existence at a later date in our national history. The circumstances under which the system was enacted, too, were not always such as to conduce to that calm thought and careful deliberation which are so essential to the enactment of wise legislation, but on more than one occasion a great and sudden emergency made investigation difficult and haste a necessity. Some of the most conspicuous features of the system, too, were the result of imperative compromises—compromises which were necessary in order to avert vicious legislation sought to be put upon the statute book. It is therefore much easier, sir, to criticise the system now than it was to devise it under the peculiar circumstances which surrounded those who enacted it into law, and I submit that, notwithstanding its defects, it has answered very well many of the purposes for which it was devised—ay, that at this time it is answering very well some of the purposes for which it was devised.

It gave us, sir, a greenback currency which enabled us to carry on the war, to suppress the rebellion, and to restore the autonomy of the great Republic. It gave us a market for our United States bonds at a time when it was of vital importance to the Government that those bonds should be negotiated. It has given us a paper currency so safe that, from the time of the inception of the system down to the present hour, no note holder has ever lost a dollar by it. It has given us a currency infinitely superior to that which it superseded—a currency which possesses the most vital of all the elements of a sound paper money, uniformity of value throughout the entire country. I am not here, however, to say that the system does not need some revision. Indeed, it has occurred to me that it is lacking in simplicity, in that we have had too many kinds of paper money in circulation, and that it might be a good idea to take these all up and substitute a single kind of paper in their place. It is quite possible, too, that it is advisable to do away with the necessity for the General Government maintaining a large gold reserve with which to redeem its outstanding paper and keep it at par, providing that this can be done with safety and not simply in such a manner as to shift the burden onto helpless and inefficient banks, and thereby occasion disaster to the people. I am frank to confess that, taking the present national banking system of issuing paper money as the nucleus and the framework upon which to build, there ought, perhaps, to be devised some wise legislation which will cure its defects and which will impart the quality of elasticity to its circulating notes, so that they may better serve the interests of business and of trade. But, Mr. Chairman, with all the defects in our currency and banking system, this is no time for experimental legislation.

There are certain subject-matters of legislation so trivial in their character that with respect to them experimental legislation may be attempted without danger, legislation from which no bad consequences can flow to the people if a mistake is made, and as to which subsequent legislation may speedily cure the wrong which hasty action has inflicted. But upon a question so grave and so vital as that with which we are now dealing, a question which affects all sections of our common country and touches all classes of our citizens, we should make haste slowly. A mistake made now, Mr. Chairman, would be followed by consequences so

far-reaching and disastrous that no subsequent legislation would be able to repair it. Mistakes here taken from the path of sound legislation will require us to retrace our steps over a stony pathway and with bleeding feet. The Comptroller of the Currency has voiced a warning to us, sir, in this connection, for, in treating of the subject of the revision of the currency in his last report, he says:

No section of the law should be disturbed that can not be materially improved upon, and no amendment engrafted unless such amendment will work out better results than flow from the existing order of things.

Nor is there any need, Mr. Chairman, for indecent speed in the matter. As I said before, we can well afford to make haste slowly. I grant you that our national revenues have been falling below our expenditures, that our Treasury has been depleted, that we have been obliged to invade the gold reserve in order to defray the current expenses of the Government and to maintain our paper money at par. But no worse condition exists now in this particular than has existed for several months last past. Nor is it at all likely that our condition will be worse in the immediate future than it is just now. In fact, it is likely to improve if the expectations of those who champion our recently enacted revenue laws are realized.

Mr. HALL of Missouri. Will the gentleman allow me one moment?

Mr. JOHNSON of Indiana. I will yield to my friend, although my time is limited.

Mr. HALL of Missouri. I do not want to consume the gentleman's time. I simply wish to ask him whether he is aware of the report now current that \$25,000,000 has been taken out of the gold reserve since the last bond issue?

Mr. JOHNSON of Indiana. Oh, yes, I understand that there is such a report in circulation. I do not know how well founded it is. I understand that the gold reserve has been depleted for some time past and that the Government of the United States has been obliged to make two issues of bonds in order to supply the deficit. But, Mr. Chairman, if we were able to endure as a nation during the last fiscal year with a deficit of \$70,000,000 in the Treasury, we shall certainly be able to endure a little while longer, when, according to the calculations of the Secretary of the Treasury, the deficit for the current year will be only \$30,000,000. We can well afford to have reasonable delay if in the meantime we avoid the crudities and imperfections of too hasty legislation and are able to devise a scheme of banking and currency which will be of some utility and answer the needs of the American people.

Why, sir, while bankers, financiers, and economists may in their capacity as individuals have given some thought to this subject of currency and banking reform in the past, yet this whole subject has been precipitated upon Congress and the country only within the last two weeks by the message of the Executive and by the report of the Secretary of the Treasury. There has been no time for students of finance, who admittedly disagree both as to the principle we should adopt and as to the means by which we should carry out that principle, to compare their views, to reconcile their differences, and to come to some unanimous conclusion. There has been no opportunity for the press of this country,

which enlists through its editorial columns some of the brightest minds of the nation, to discuss the questions involved in the controversy.

The Committee on Banking and Currency devoted only a short week to hearing the testimony of experts on the subject. The report of the majority of the committee was written before that hearing was even concluded. The minority was given very insufficient time in which to elaborate in its report its views on this important topic. Even now we are proceeding with this debate without the testimony which was taken before that committee having been printed, so that it can be put into the hands of members that they may inform themselves by perusing it. This bill, sir, never was considered in executive session of the committee for one instant. No opportunity was there given to go over it section by section and exchange views as to its wisdom and practicability and to offer amendments to it. There has been no friction of mind upon mind behind the doors of the committee room, to the end that the measure might be properly formulated and the House secure the best product of which the committee was capable. But this bill in its crude state and with all its imperfections full upon it has been thrown into this House, devolving upon it in Committee of the Whole the necessity of doing that which in a great measure ought to have been performed by the Committee on Banking and Currency.

Mr. Chairman, I insist that the time to call a halt in this shameful policy has at last arrived, and that there ought now to be accorded a fair opportunity for debate and exchange of opinion upon this floor. You are attempting here to revise a banking and currency system which has endured on the statute books of the nation for thirty long years. Many of the imperfections which appear in the old system are the result of hasty and ill-advised legislation. Can you expect to devise here a system which is to supplant it and to endure for many years to come in the brief time in which a member of this House could swallow a cup of coffee? If this bill is correct in principle and faultless in detail, no harm can come from allowing fair opportunity to debate it. Discussion will only create champions for its defense and vindicate its wisdom. If, on the other hand, the bill is vulnerable in principle as well as in detail, no effort should be made by cutting off debate to shield it from the barbed arrows of criticism that can be aimed at it from many places on this floor.

Mr. HENDERSON of Iowa. At this point, if I may interrupt my friend, I would like to make a suggestion. Reference has been made by the gentleman from Missouri [Mr. HALL] to the gold going out of the Treasury. I would like my friend from Indiana [Mr. JOHNSON], unless he has it in contemplation to do so at a later stage of his remarks, to tell us now how this measure will help the Treasury.

Mr. JOHNSON of Indiana. A little further along in the course of my remarks I propose to deal as best I can with the very problems so pertinently suggested by the gentleman from Iowa.

Mr. HENDERSON of Iowa. Very well.

Mr. JOHNSON of Indiana. Now, Mr. Chairman, what is the character of this specific measure which has been devised and is now before this committee for its consideration? Is it the result

of careful and painstaking thought? Is it the best product of the mind of the committee from which it emanated? Is it wise and salutary in its provisions? Will it answer the purpose for which it is designed? Sir, I undertake to say that from its preamble to its concluding section the bill is indefensibly vicious; that if enacted into law in its present shape it will simply give us "confusion worse confounded;" that instead of mitigating it will aggravate the evils from which we are suffering. Why, sir, the bill is not even favorably reported to the House. It does not come here with the sanction of the committee. It is without friends even in its own household. It comes here a confused and illy digested mass, with the mark of Cain upon it, put there by the majority members of the Committee on Banking and Currency themselves. They are unwilling to be sponsors for it. They mistrusted its wisdom at the very outset. Let me read you the timid and apologetic language which they employ when they report it to this House simply for consideration:

The extraordinary conditions which confront the Treasury Department have constrained the members of the majority of the committee, while not agreeing to all the provisions of the bill nor to all the reasons employed in this report, to concur in reporting the measure to the House for its consideration, each reserving to himself the right to offer such amendments as he may deem proper and to vote on the bill finally as he may determine.

Mr. Chairman, it is a significant circumstance that the majority report, which, by the way, as I have heretofore said, was drawn before the hearings in the committee were concluded, is a typewritten document, except the concluding portion just read, which is in the well-known handwriting of a gentleman upon the committee with whom we are all quite well acquainted. I am certainly justified in charging, sir, from the circumstances surrounding the inception of the majority report and the language in which this measure has been reported to the House, as well as from the statements of the individual members of the majority, that they were not even willing to let it be considered by the House unless this statement accompanied it, and that they were wholly unwilling to accept the responsibility for its passage.

The bill in its entirety, sir, has been condemned by the Comptroller of the Currency himself. I grant you that he was anxious to avoid putting himself before the committee in an attitude of hostility to his chief, and that he was careful to inform the committee that he agreed with the Secretary in principle as to the pending proposition, and that he differed with him simply in the details. But, Mr. Chairman, this difference in detail is the very heart and soul of the whole controversy. The Comptroller eliminated from the bill which he advised should be drafted some of those very features on which the Secretary of the Treasury insisted with the greatest vehemence.

Sir, the Comptroller of the Currency has not been in public life as long as the honorable Secretary; he has not filled so great a space in the public eye; but it is safe to say, judging from the kind of bill he recommends in his report and comparing it with the bill under consideration, the product of the Secretary, that he graduated from a sounder school of finance than his chief, and that he is not, like him, hampered by those narrow views as to the functions of the Federal Government and amplified views as to powers of the States which so incapacitate statesmen of the Dem-

ocratic school from formulating measures that are adapted to the needs of the people of the whole country.

Mr. TRACEY. Will the gentleman allow an interruption just there?

Mr. JOHNSON of Indiana. Certainly.

Mr. TRACEY. I would like to call the gentleman's attention to the fact that I was present when the Comptroller of the Currency gave his testimony before the committee, and that in regard to the matter of State banking he simply stated that, it not being within the province of his office, he did not wish to express a criticism on the plan of the Secretary of the Treasury in that regard.

Mr. JOHNSON of Indiana. I had intended, Mr. Chairman, to advert to that subject further on in my remarks, but the interruption of the gentleman from New York makes it proper that I shall do so now. It is plain to those who have examined the subject that the Comptroller of the Currency is opposed to the State-bank system. If you will take up and examine his report for 1893 you will find that he states that although he had been urged to make certain recommendations in regard to the currency, he was unwilling to do more than make some suggestions for the improvement of the national banking system. If you will also examine his report for the year 1894, just made, in which he advises a system of banking and currency for the country, you will see that he recommends a system exclusively under national control, and utterly ignores the State-bank system of issue, not even mentioning it in his report. When he came before the committee, in the views there submitted by him he made no reference to the system of State-bank issue whatever. He did not even advert to the suggestions of the Secretary on this subject.

At the conclusion of his testimony, Mr. Chairman, I myself addressed to him the question, "Does your system contemplate exclusive national control of the banks?" And he answered that that subject was outside of his jurisdiction, and that he did not desire to make any recommendations on the point; that the security of the State banks of issue depended entirely on the construction given to the provisions for national oversight in the plan which Mr. Carlisle had suggested. And he said further that the question concerning State banks of issue was a matter which he preferred to leave entirely to the discretion of the Congress. The Comptroller of the Currency, therefore, shows, not only in his report, but also in his testimony before the committee, that he specifically confined himself to the subject of national finances; and if he believed in or favored a system of State banks of issue he certainly refused to say so. Had he been inclined favorably toward such a system certainly he would have said something in favor of its establishment.

Mr. DINGLEY. Before my friend from Indiana proceeds, I desire to call his attention right here to something which may have escaped his recollection.

Mr. JOHNSON of Indiana. Certainly.

Mr. DINGLEY. I desire to call his attention to the fact that the Comptroller of the Currency, in his report for the present year, enters into an elaborate statement respecting the evils of the old State banks of issue, and couples it with the statement that

there is reason to suppose that even under the existing order of things, if they should be rehabilitated, the same evils or evils of that nature would still be common.

Mr. JOHNSON of Indiana. I thank the gentleman for the interruption. It simply tends to confirm the opinion which I have already expressed as to the real attitude of the Comptroller of the Currency upon the subject of State banks of issue.

Now, Mr. Chairman, in the week during which the Committee on Banking and Currency gave hearings on this measure it summoned before it experts, men who were eminent in banking, finance, and economics, men from nearly every section of the country, men of all shades of political opinion, men who were national bankers and men who were State bankers, men who were leading journalists of the country, and men who were eminent political economists, and they all agreed that this bill was impracticable and that it would be unwise to enact it into law and put it upon the statute book.

In the limited time afforded me for discussion I can not quote from this testimony. It has been printed and the members can obtain it, and they will find the statement I make is entirely true. Not a single, solitary one of the distinguished persons who gave their utterances before it indorsed this bill which the Committee on Banking and Currency has reported to the House, but every one of them disapproved of it, and said that it would be disastrous in its consequences and ought not to be enacted into law.

Mr. HALL of Missouri. I controvert that statement.

Mr. JOHNSON of Indiana. The gentleman says he controverts this statement. I should like him to name to me a single witness that indorsed this bill and said that it would be wise to put it upon the statute book.

Mr. HALL of Missouri. I will give it to you before you get through.

Mr. JOHNSON of Indiana. The gentleman says he will give it to me before I get through. I should like to have it now. I repeat that statement, that without regard to their political views, without regard to whether they were national or State bankers, without regard to the section of the country from which they hailed, whether they were bankers, financiers, or political economists, the overwhelming consensus of opinion before the Committee on Banking and Currency by those who voted their views there, was that this bill was vicious from start to finish and that it would be a public calamity to enact it into law.

Mr. HENDERSON of Iowa. You do not include the Secretary of the Treasury in that statement?

Mr. JOHNSON of Indiana. I am speaking of those who were called as witnesses outside of Government officials. Mr. Carlisle himself, the Secretary of the Treasury, was the only one who gave his bill an indorsement.

Mr. LACEY. And he suggested that it be amended, did he not?

Mr. JOHNSON of Indiana. I believe the gentleman is right. The fact is that the Secretary himself suggested and brought in one or two amendments, and he is the only person who had an opportunity before that high committee of going over that bill by sections and offering amendments for its betterment.

Mr. WILLIAM A. STONE. Did he not also say that there

seemed to be a demand for State banks, although in substance he could not see any good that would come out of it.

Mr. JOHNSON of Indiana. Mr. Chairman, I will reach that branch of the subject a little further along. He did make that utterance in response to a question addressed to him by the distinguished gentleman from Alabama [Mr. COBB], a member of the committee. He said that he did not attach as much importance to that feature of the bill as some people did, and that he simply put it in there in deference to a sentiment which in certain sections seemed to demand its incorporation.

Mr. WILLIAM A. STONE. And he might have added, whose votes were necessary to pass it.

Mr. JOHNSON of Indiana. Now, sir, I propose to take up in detail some of the provisions of this bill, and subject them to the test of reason and experience.

The prime purpose of introducing this bill, the principal object which the Secretary of the Treasury claimed to have in view in having it presented to the House for its action, was to relieve the Treasury from the drain of its gold, to stop the revolution of that endless chain to which the President made reference in his message, which is constantly taking gold from the Treasury by the presentation for redemption of the paper money of the country, and at the same time requiring the issue of bonds, subjecting the people to large interest charges in order to supply the gold thus removed.

Now, how is it proposed in this bill to consummate that purpose? Is it proposed to pay off the greenbacks and the Treasury notes issued under the act of 1890, that are working this depletion? Why, not at all. There are no surplus revenues, as everybody knows, with which to liquidate these notes.

Is it proposed to fund them into bonds and thus cancel and permanently retire them? Not at all. The policy proposed is a temporary one. The plan does not even rise to the dignity of a makeshift. It is proposed to get rid of the presentation of these drafts upon the Treasury by capturing them, by hypothecating them in the Treasury of the United States as partial security for notes to be issued to the national banks, and thus make it impossible that they shall be presented to the Treasury for payment in gold.

But how does the pending measure accomplish this? Does it hypothecate all of these notes? Does it place them all where they can not be presented to draw the gold from the vaults? Why, not at all. The provisions of this bill are that circulating notes to the extent of 75 per cent of the capital stock of all the national and State banks of this country may be issued. The capital stock of all these banks is now a billion dollars.

Therefore, if they all take out the greatest circulation to which they are entitled under this measure there will be a circulation of \$750,000,000, for this is 75 per cent of their capital stock. This bill requires the deposit in the Treasury under the guarantee system prescribed by its provisions of 30 per cent of this \$750,000,000 in greenbacks and Treasury notes of 1890, which would be \$225,000,000 of those notes. To this sum you may add the 5 per cent safety fund required of the national banks by the terms of the bill, and which would amount in ten years to \$5,500,000. Thus the pro-

visions of this bill provide for the depositing in the Treasury of only \$225,500,000 of these Government notes which are draining the gold from the Treasury. But there are outstanding of these notes \$346,000,000 in greenbacks and \$150,000,000 in the notes issued under the act of 1890, making an aggregate of \$496,000,000 of them now in circulation. Subtract from this \$496,000,000 of these notes which drain the Treasury, \$225,500,000, which are hypothecated under the provisions of this bill, and you still leave out \$270,500,000 of them.

The showing, Mr. Chairman, is even worse than this. If you increase the bank capital of this country to double its present amount, making it \$2,000,000,000, and if the banks then take out all the circulation they would be entitled to under the provisions of this act, in order to do it they will still only have to hypothecate part of these notes which are draining the Treasury. Even this increased hypothecation will leave out in the neighborhood of \$50,000,000 of them.

Why, Mr. Chairman, this provision for getting rid of these notes will not accomplish the object in view. It is simply keeping out the wolves by closing all the windows and leaving open the door. The banks would only use a part of the greenbacks and Treasury notes in order to take out circulating notes. It would leave a large balance of them out, still enabling them to do in respect to the gold in the Treasury precisely what the entire volume is doing now.

And, sir, as if to make the scheme still more ridiculous, as if to still further increase the volume of notes left free to drain the Treasury, and defeat the very object of the bill, the provision of the measure is that the banks which deposit the notes and hypothecate the paper to secure their circulation may surrender their circulation at pleasure and withdraw their notes. More than this, the bill also provides that the national banks of this country shall no longer be required to keep reserves, thus releasing from these reserves the greenbacks, which, as every member knows, they now keep there, and enabling these greenbacks also to be used for still further raiding the Treasury gold.

Mr. DINGLEY. Is the gentleman able to state the present amount held as reserve?

Mr. JOHNSON of Indiana. I am not able to give that now.

Mr. DINGLEY. One hundred and sixty-five millions, I think.

Mr. JOHNSON of Indiana. Now, Mr. Chairman, this bill does not provide with any certainty for the retirement and cancellation of these greenbacks and Treasury notes which are hypothecated. It does not require the Secretary of the Treasury to pay them off and destroy them. It simply says he may do so. The language is entirely permissive. One Secretary of the Treasury may desire to do this, and another Secretary may be opposed to doing it; hence there is no assurance of ultimate retirement. And when are these greenbacks and Treasury notes to be paid, and from what fund? Out of any surplus there may be in the Treasury, says the bill. Well, sir, there is no surplus there now. There has been none since the 4th day of March a year ago. When will there be a surplus in the Treasury? The Secretary himself, in testifying on this point before the Committee on Banking and Currency, declared that it might be in five years or it might be in twenty years.

Sir, the plain fact about the whole matter is this: That any system which falls short of promptly and absolutely retiring and canceling this paper money of the Government will be sure to fail of the object in view—the protection of a helpless Treasury.

Mr. HENDERSON of Iowa. As the amount deposited amounts to 30 per cent, it only provides for 70 per cent.

Mr. JOHNSON of Indiana. Now, if the object is to bring about confidence in our business honesty both at home and abroad by giving to our own people and to the people of the world the assurance that these obligations of the Government are at last to be paid and retired, you can not do it by a cowardly, half-way, and temporizing policy. People will understand that hypothecation is one thing and retirement and cancellation quite another thing, and they will be quick to perceive that there are plenty of avenues through which the bills which have been hypothecated can escape and get into the circulation to harass business and again burden the Treasury. They will see that the banks may withdraw them; that the Secretary of the Treasury may not exercise his option of paying them out of the surplus revenues; that Congress may intervene legislation which will do away with the Secretary's option to retire them altogether, and thus the spirit of disquiet and unrest will still prevail.

It strikes me, too, Mr. Chairman, that the Secretary of the Treasury, in the legislation which he has proposed, has had too much regard for the gold in the Treasury and too little regard for the gold of commerce. Of what avail to the business interests of this country and to the people at large is it to stop the drain on the Treasury for gold and impose it upon the banks? Will the disaster to commerce and business be any less if it comes through the medium of the banks, which are unable to stand the strain, rather than through the incapacity of the Treasury to withstand it?

And now, sir, granting to this bill all that its friends claim, supposing that the banks of this country, State and national, will take out circulation under it, what will be the effect with respect to the currency? In my humble opinion, if the bill is to prove as successful in operation as gentlemen claim, its effect will be to inflate our currency and, as an almost necessary consequence, to drive gold out of circulation. Let us consider this phase of the question for a moment. Let us suppose, in the event this bill becomes a law, that no existing banks, either national or State, will seek to capitalize their surplus in order to increase the amount of circulation that they can take out. Let us assume that there will be no new State banks organized to take out circulation over and above those banks now in existence. Let us assume that all the existing banks—and according to the Secretary of the Treasury it is necessary that a great proportion of them should do so in order to make his scheme a success—will take out all the currency to which they are entitled under the provisions of the bill, what will be the result?

The capital stock of all the banks is now, as I have already said, \$1,000,000,000. Seventy-five per cent of this amount in circulation would be \$750,000,000. From this, however, is to be deducted \$206,000,000 of national-bank notes, which would have to be surrendered in exchange for the new currency, and \$235,000,000 of Government paper which would have to be hypothecated under

this 30 per cent guaranty fund scheme proposed in the measure. We would have, then, \$431,000,000 of national-bank notes and United States Treasury notes to deduct from the total circulation of \$750,000,000 that would result under the operation of this new law; leaving an increase of the paper money of the country—mark you, not of the coin money, but of the paper money—of \$319,000,000.

Now, sir, I deny that there is any need of an inflation of our paper currency at this time. We may need a better distribution of the money that we have, but there is no need of an increase for the present. We have as much money to-day per capita as any leading nation on earth except France, which, not dealing in checks and drafts to the extent that we do, requires more actual money in circulation. Now, what will be the effect of that \$319,000,000 inflation of your currency?

It will give you an excess of paper money; it will give you a redundant currency; and the best political economy teaches that the effect of this will be to drive gold out of circulation, and this idea, sir, was enforced by the best financiers and political economists who appeared before the Committee on Banking and Currency.

So that this bill not only fails to provide a measure whereby the drain on the Treasury gold will be stopped, but it also fails to invite gold into the channels of trade. By an inflation of the paper currency it will tend to drive what gold we have into retirement and out of circulation. Now, Mr. Chairman, the very moment you disprove the proposition that this bill will relieve the Treasury from the drain of gold, that very moment the whole foundation of the bill is destroyed and the bill itself is precipitated to the ground. The protection of the Treasury gold was the inspiration of this measure. The devising of a new currency system was a mere attachment. The latter never would have been attempted as an independent proposition. It became necessary, at least it was thought necessary, to create a mongrel currency to take the place of the paper money deposited in the Treasury in order to avoid a contraction of the currency. To this consideration alone is the currency feature of this bill indebted for its existence.

Mr. TERRY. May I interrupt the gentleman at this point? Did I understand him correctly awhile ago to say that a country like France required a greater per capita of circulation than a country like the United States?

Mr. JOHNSON of Indiana. I said that we now had more money per capita in circulation than any leading nation on earth, except France, and that I could very well understand how France would require more, because in France they deal less in checks and drafts, the substitutes for money, than we do.

Mr. TERRY. On that point I desire to ask the gentleman whether it is not a proposition laid down by political economists that the wider or more extensive the area of the country over which the circulating medium has to operate, the greater the amount required per capita?

Mr. JOHNSON of Indiana. Mr. Chairman, that may be laid down in some works on political economy; but the gentleman must remember that this is simply one factor in determining what shall be the per capita circulation of a country. Area is not the only consideration. The density of population, the character of the



people, the kind of industries in which they engage, their means of communication, and many other considerations that I might enumerate, if I had time, all enter into the problem.

Mr. TERRY. But is not that a fundamental principle laid down by all political economists?

Mr. JOHNSON of Indiana. I do not recognize it as a principle laid down by all economists.

Mr. QUIGG. But if it is, does it not apply to facility of communication rather than to area?

Mr. TERRY. No. The point is, that the wider the area is in proportion to population the less rapid is the circulation or the number of revolutions a dollar will make in a given time.

Mr. JOHNSON of Indiana. I suppose, Mr. Chairman, that a barbarous or half-civilized country, even though it occupied a continent, would not require one-half the volume of money that New England requires with her vast volume of business and her varied industries.

Mr. WILLIAM A. STONE. Our post-office system overcomes that difficulty.

Mr. JOHNSON of Indiana. Mr. Chairman, with reference to the system set forth in this measure, I would infinitely prefer as a choice of alternatives another system. I do not say I am willing to enact it; but I do say that it is preferable to the one embraced in this bill. I speak now as an individual. I do not assume to represent the view of any other gentleman on this floor. If we want to get rid of the drain upon the Treasury, why not manfully issue Government bonds at a low rate of interest and fund these notes into those bonds, and thereby cancel and retire them? Why not supply the contraction in the currency occasioned by this process, by allowing the national banks to issue notes to the par value of the existing bonds and the new bonds thus put into circulation? Why not permit, if necessary, a reduction in the amount of tax on the circulation of the national banks? Why not repeal those provisions of the present national banking law which permit a retirement every month of only \$3,000,000 of national-bank circulation, and which make it impossible for a bank which has once surrendered any of its circulation to have new circulation issued to it until six months have elapsed? Why not retire all the national-bank notes below the denomination of \$10 and provide that the silver certificates shall all be issued in less denominations than that?

What would be the effect of such a proposition? You say it would entail an interest-bearing debt upon the people—it would convert a noninterest-bearing obligation into an interest-bearing obligation. Suppose it does; are not these outstanding bills mere promises to pay? Are we not to pay them some time? Besides, would not the people better pay interest on these bonds than have the business interests of this country (and this matter touches all the people of the country) suffer the vast losses which it has suffered in the past and is liable to suffer in the future by the effort to maintain this paper at par through the system of redemption at the Treasury?

Allowing the national banks to increase their circulation to the par value of their bonds would not be a tax on the people. It would be a benefit to them. It would make the currency more

elastic. It is true that taking off a part of the tax on circulation would in the first place inure to the benefit of the banks, but it would have a tendency, along with the additional issue to the par value of the bonds, to make the currency more elastic, thus enabling the banks to give it to the people when business demanded it more cheaply and at a lower rate of interest.

Let us try, sir, to get rid of this jealousy against the banks which has no foundation in reason. Let us endeavor to understand that giving to the banks an opportunity to make money on circulation does not necessarily involve oppression of the people, but that it will benefit the people as well as the banks—that the interests of the banks and the interests of the people are not antagonistic but identical.

The taking up of all the national-bank bills under the denomination of \$10 and substituting for them silver certificates and silver coin would have a tendency to give some circulation to silver money and silver certificates, and thus relieve the Treasury of that embarrassment of which the Secretary so piteously complains. I simply suggest all this, Mr. Chairman, as a tentative proposition. I do not know now that I would indorse it to its fullest extent or vote for it; but of the two things—either to pass this imperfect, this wretched bill, or to adopt the system I have mentioned—I would infinitely prefer to adopt the latter. If it should fail of ultimate success it would at least relieve present necessities; and at some more favorable time, when there is less public distress and less danger from innovation, we might, after careful thought and preparation, evolve a banking and currency system that would be of substantial benefit to the American people.

But I have another objection to the bill now pending. The Secretary of the Treasury says that he wants to get rid of the silver certificates and the silver, which are a source of embarrassment and annoyance to the Treasury where they accumulate; and for this reason he prohibits in this bill the issue of notes of a less denomination than \$10 by the national banks. But unfortunately for this scheme there is no such restraint imposed upon the State banks. Doubtless the interdiction against national-bank notes of small denominations would enlarge the field for the circulation of State-bank notes of small denominations; they would come into competition with, and would probably drive out, the silver certificates of the United States, and possibly to some extent the silver money of the Government. Thus this scheme of the Secretary to save the Treasury from embarrassment by the accumulation therein of silver and silver certificates would fall to the ground under the provisions of the bill here submitted.

There is still another objection, Mr. Chairman, to this bill. Under the present system the national banks are obliged to redeem their notes over their own counters and at a central reserve point located here at Washington. Now, individuals very seldom present their notes to the national banks for redemption; and the banks, I apprehend, very seldom present notes to other national banks, or even to the Treasury, for redemption. They know that every one of these bills is made secure to the note holder by a pledge of Government bonds. They know there is no danger in taking them. I think, however, the testimony does develop the

fact that at New York the banks do collect these national-bank notes and send them to the Treasury, to be exchanged for greenbacks, to the end that with the greenbacks they may pay duty on imports. Possibly with this exception the entire redemption which now takes place at the Treasury is of soiled or mutilated bills. But what is the system of redemption proposed by the author of this bill?

Under the system of currency which it creates redemption is a matter of vital importance. He proposes that the banks shall redeem their notes at their counters and at such other place as they may determine upon. Some banks may determine upon a place of central redemption; others may not. The language, sir, is permissive; it should be imperative. There should be a central point of redemption; and why? Because this bill proposes to dispense with the bond security; it proposes to give a security based largely on the general assets of the banks. It attempts to give us an inexpensive currency, one that can be idle in ordinary times without loss to the banks and be sent into the avenues of trade when the demands of business require it. It attempts to give us an elastic currency. But an elastic currency must not only expand with the needs of trade, but it must also promptly contract when no longer needed by the volume of business. This contraction can only be secured by redemption in coin on demand and by speedy return of the circulating notes to the bank for that purpose. If this avenue is closed the currency becomes redundant. It becomes an irredeemable currency.

Now, when money is sent out under the scheme proposed under this bill, if there is no central place of redemption provided, the speedy return of the bills when business does not require them is obstructed; it is made sluggish, and you have a plethora of currency, with all the evils which follow such a condition.

It is not simply the redemption of the note on presentation, sir, but it is also the means provided for speedy presentation which gives proper contraction to a currency and makes it both safe and flexible. It seems to me that this bill tends in this particular to retrogression in our financial affairs rather than to progress. Dispensing with central redemption would be exactly like dispensing with the settlements between the banks as now conducted under the clearing-house system, and going back to the old plan whereby each bank had to take its checks and make individual settlements with each bank with which it had dealings.

Mr. HALL of Missouri. Will the gentleman allow an interruption just at this point?

Mr. JOHNSON of Indiana. Certainly.

Mr. HALL of Missouri. I have not had time to go through the testimony accompanying this bill. There are, as the gentleman knows, some three hundred and seventy-odd pages of it; and I understand from the clerk of the committee that it is in the post-office box of every member of the committee, and accessible to them if they desire to call for it. But I wish to state, in answer to a suggestion that I controverted which was made by the gentleman during a portion of his remarks this morning, that I have not had time to go over the whole testimony; but on page 193 of the testimony there is a statement by Mr. Horace White, in answer to a question

of my own with reference to the safety fund, the witness at that time having reference to section 5 of the bill, in which he said:

I agree with Mr. Butler exactly on that. To my mind it would not weigh a feather, because I say that the notes would be absolutely secure; and yet I think the average board of directors would say to some degree at it: that they would say "that is an indefinite sum."

Mr. BROSIUS. May I correct my friend from Missouri in his reading of the testimony? The answer was—

I think the average board of directors would say at it—  
not "shy to some degree at it." [Laughter and applause.]

Mr. HALL of Missouri. That is correct.

In further consideration of the same point, the Chairman submitted this question:

The CHAIRMAN. In that connection Mr. Carlisle, on page 15 of his report to Congress, states the total resources of the 3,750 national banks at \$3,473,000,000, while the capital stock of all the national banks is only \$672,000,000. If banks are restricted to the 75 per cent of their capital stock they will only be permitted to issue to the present number of banks on their capital stock \$604,000,000 of currency. If every bank failed this is all they would be required to pay, and there would be a fund estimated at \$3,473,000,000 with which to pay it. Are you of opinion, Mr. White, that the \$3,473,000,000 would be ample security for \$604,000,000, if all the banks were to fail?

Mr. White responded, "Yes, sir."

Again, on page 170, there is a letter from Mr. William B. Dana, of the Commercial and Financial Chronicle, which I will read. He says:

New York, December 12, 1894.

MY DEAR SIR: I thank you for your request to appear before your committee on the 15th instant for the purpose of attempting to give information with reference to banking and currency matters. My engagements are such at this period of the year as to render it impossible for me to be present. Excuse me if I add that industrial interests would no doubt be greatly benefited if Congress could pass a bank-note measure and at the same time provide some method for gradually getting rid of the legal-tender notes as the bank notes were issued. Mr. Carlisle's plan has this double purpose in view. Thanking you again for your invitation, I remain,

Very truly yours,

WILLIAM B. DANA.

Hon. WILLIAM M. SPRINGER,  
Chairman Banking and Currency Committee,  
Washington, D. C.

Showing the view that these gentlemen took of that question, and bearing out the suggestion I have already made.

Mr. JOHNSON of Indiana. Now, Mr. Chairman, I have just three observations to make in response to the gentleman from Missouri. First, that his conduct on this occasion simply illustrates how some gentlemen on the floor of this House may abuse the privilege accorded to them of interrupting a member for a question. Second, that the testimony of a witness is not to be gained by what he says on his original examination, but is to be drawn also from his cross-examination and reexamination and from the general tenor of his testimony; that you are not to get at the views of a witness by taking an isolated statement from his testimony, but that you must take the entire testimony. Further, let me say that the gentleman's answer does not cover the scope of my statement at all, which was that there was not a man who appeared before the Committee on Banking and Currency who ever indorsed the scheme. It is true that it may have been indorsed in some particulars here and there; but my statement was that as a whole it was rejected uniformly by every witness who

appeared before the committee and that no one could be shown to have indorsed it in its entirety. The safety-fund feature is a very inconsiderable part of the Carlisle plan.

In the third place, let me say that the fact that a member of the Committee on Banking and Currency who has heard all of the testimony and is not able now, after the testimony is printed and put in his hand, to turn to it and state to this committee what it contains, simply illustrates my observation that there has been undue haste in thrusting this measure upon the House; for if a gentleman who heard the testimony is not able to state a fact of this importance, how can it be expected that other gentlemen on the floor of the House who have not heard one word of it and have not had one minute's time to examine it are able to vote understandingly on such an all-important question as this? [Applause on the Republican side.]

The CHAIRMAN. The time of the gentleman from Indiana has expired.

Mr. JOHNSON of Indiana. Mr. Chairman, I would like to have an extension of my time.

Mr. DOLLIVER. I ask unanimous consent that the gentleman from Indiana be permitted to conclude his remarks.

Mr. BOWERS of California. I think there ought to be some understanding as to the time the gentleman will occupy. There are about three hundred of us who can not get a moment's time on this subject. Suppose you limit the extension to half an hour.

Mr. DOLLIVER. I hope the gentleman will not object, but that the request will be granted.

Mr. BOWERS of California. I shall not object.

Mr. JOHNSON of Indiana. If the Chair will permit me just one suggestion, I have submitted with good grace to all interruptions, some of them quite lengthy, and shall be pleased to submit to further questions hereafter. In view of the fact that I have been interrupted quite frequently, I shall be very glad to proceed with my remarks and will not abuse the patience of the committee.

The CHAIRMAN. The gentleman asks unanimous consent to be permitted to continue his remarks. Is there objection?

Mr. PENDLETON of West Virginia. I shall not object to this extension, but I give notice that I will in the future.

The CHAIRMAN. The Chair hears no objection.

Mr. JOHNSON of Indiana. Mr. Chairman, I object to another feature of this bill. It robs Peter to pay Paul. It despoils the security of the depositors of national banks in this country in the interest of the note holder. Under the system which now exists, whenever a bank fails all of its circulating notes are paid, and yet only 90 per cent of the par value of the bonds which secure those notes is exhausted. The depositors then have the difference between that 90 per cent and the premium value of the bonds for their payment. They have also the tangible assets of the bank; they have its commercial paper; they have the double security of its stockholders. So that while the existing system guards the note holder securely, at the same time it protects the depositor, and it has done this to such an extent that there has been a very small proportion of loss to depositors under the national banking system.

But how about the system proposed in this bill? It takes away the bond security to the note holder. It requires a specific guaranty only of 30 per cent of the amount of circulation upon the part of the bank; and, if you please, the safety fund in ten years would amount to 5 per cent more for security.

Suppose a bank to fail. These specific assets and securities are applied to the payment of its notes, but a large margin is left unpaid which is to be satisfied out of the safety fund made up by the other banks, and they in turn have a first lien on the assets of the failed bank to reimburse them their outlay. So the fund that ought to be saved for the benefit of the depositor is wiped out of existence, and he is left to bear the loss.

I know very well it is claimed that this system is justifiable upon constitutional grounds. I heard the Secretary of the Treasury—and he is well capable of making an argument of that kind—say that the sole function of Government was to secure the note holder, and that it had no right to interfere with the matter of deposits. I do not take so narrow and contracted a view of the functions of the General Government as this. The security of deposits is necessary to good banking, to the millions of depositors, and to the people at large. It has been the policy of the Government under the existing law to protect these interests. This policy ought to be pursued in the future. Let us have a good security for the depositors, as well as a good security for the note holders. Any other system will fail to answer the needs of the great American people.

Mr. DOLLIVER. Was the Secretary of the Treasury examined as to the effect on the average solvency of the banks, of the withdrawal of the bonded security for the present circulation—whether or not it would increase the average mortality of the banks?

Mr. JOHNSON of Indiana. I think he was examined upon that point, but I am not able, without abusing the patience of the House, to go fully into that subject now, as it is a little out of the line of the argument I have mapped out for this occasion.

I want, Mr. Chairman, to say something more with respect to the proposition in this bill to repeal the law requiring national banks to keep a reserve. Under the present system, in reserve cities, I believe they are required to put up 25 per cent, and in cities outside of the reserve system about 15 per cent. Am I right about that?

Mr. COX. Fifteen and twenty-five.

Mr. JOHNSON of Indiana. Now, Mr. Chairman, the injustice of the thing comes in this: after having deprived the depositors of the indirect benefit of the bond securities afforded to the note holder by the existing law, you then legislate out one of the principal direct safeguards for his protection. I know it is said that banks can be trusted to create their own reserve. I know it is said that it is unwise to limit them arbitrarily, that the effect of this is virtually to deprive them of the power to prevent panics and runs, and of serving the public interests when the time of necessity comes. But, sir, this reserve law now on the statute book was put there after careful thought and deliberation. It was placed at that line which was deemed to be safe. It was not intended for the nine banks that are capably managed, but it was intended to cover the tenth bank that is recklessly managed; and I submit that it is an unsafe procedure to wipe it out of existence.

Again, if you please, Mr. Chairman, under the existing system the Government of the United States is liable to every note holder who has in his possession a national-bank note. The moment the bank fails, the Government pays it, and reimburses itself by a sale of the bonds which it holds as security for the circulation. If the bonds are depreciated, the loss falls not upon the note holder, but upon the Government, in the event that the failed bank has not put up the additional security required by law. This, sir, is the reason why every man in this country takes your national-bank notes without hesitation, and never gives himself any concern as to their security. He knows that he has the promise of the National Government behind the note, and hence he is satisfied to take it without complaint.

But the new system abolishes the Government from ultimate liability. It takes down the national bonds, which protect alike the note holder and the Government, and substitutes a guaranty of 30 per cent of the circulation, and a 5 per cent safety fund; and when these are exhausted it requires the banks to replenish it and look to the assets of the insolvent bank for their indemnity. If the banks fail, the ultimate loss falls upon the note holder and not upon the Government.

Gentlemen may spend time, if they please, in demonstrating that loss to the note holder is impossible under the system which they have devised; but take a great financial crash, when all the banks go by the board, as they did in 1857, and probably these gentlemen would find they were mistaken in their calculation.

But whether mistaken or not, I have simply this to say in this connection: It is not sufficient that these notes should be safe, but it is absolutely indispensable to the success of the proposed system that the people should believe them to be so. You are embarking on a sea of experiment. You are tearing down a stable and established system and substituting a new and untried one in its place. Public confidence in the solvency and safety of your notes is indispensable, and the people who have been accustomed to take your notes because they knew the Government was behind them never will be willing to accept this new paper, even if they understand that all the banks in the country are behind it, if they understand at the same time that in case the banks fail the loss is to fall upon the note holder and not to be met by the Federal Government.

The question is one of psychology, and the general consensus of opinion of those who testified before the Banking and Currency Committee was that the ultimate liability of the Government to the note holder for the bills would be much more likely to insure public confidence in them and give them currency.

Mr. COX. Will my colleague yield to me one moment?

Mr. JOHNSON of Indiana. Yes; I will yield to the gentleman.

Mr. COX. Now, the proposition involved in the point you are discussing lies in this fact: the Government becomes security for the notes issued by the banks under the present system. Is that true?

Mr. JOHNSON of Indiana. Yes, sir.

Mr. COX. Now, then—

Mr. JOHNSON of Indiana. The Government is not security. The Government simply proposes to pay if the banks shall fail to do so, and reimburse itself out of the sale of the bonds.

Mr. COX. That is the case with all securities; they have to pay if the other fellow does not. Do you think it better for the Government to stand security for every national-bank note that is issued, that have received these large and great franchises, or make the banks stand security for each other?

Mr. JOHNSON of Indiana. Why, Mr. Chairman, I am not troubled because the banks have secured great franchises. I have no prejudice against the granting of franchises to banks if they also inure to the benefit of the people. In God's name let them have them. I am in favor of the Government assuming the responsibility for the ultimate payment of these notes in case the banks do not pay them. It is the public interest and the success of the scheme I would promote. There can not be any loss to the Government if the position of the advocates of this bill is sound. The people will have confidence in the currency because they know that they have not to depend upon the mere management of banks. They know that they are to look to the Government for their payment in the event of any public calamity.

Hear me, sir, a little further in opposition to this bill. It is filled from the beginning to the end with shameful and unjust discriminations against the national banking system of the country. If I did not have the utmost confidence in the intelligence and probity of the gentleman who drew the measure, I should imagine that it was drawn for the express purpose of so discriminating against these banks as to make the issue of notes by them unprofitable and drive them into State charters and revive the circulation of State banks. Behold, sir, what a pitiable spectacle is presented when the Secretary of the Treasury comes before the Committee on Banking and Currency, and says: "There is a drain of gold from the Treasury, and I want to stop it. I present you a bill here and insist that it be passed, but I admit that under the very terms of the bill the drain will not be stopped, because it only ties up a part of the currency that is constantly producing the drain." The scheme, too, of the Secretary, which he says is to bring gold back into circulation, will, if carried into effect, practically result in the inflation of the paper currency and thus simply have the effect to drive gold out of the channels of business. Certainly one so astute as this official must be able to perceive this. Can it be possible that it was known in advance that the pending measure would fail of the principal purpose for which it was urged, and that the real object sought to be accomplished by it is the reestablishment of State banks with the power of issuing circulating notes?

I say the bill discriminates against national banks. How does it do it? By requiring that each one of the national banks shall be responsible for the debts and obligations of every other national bank. There is no such provision in this bill imposed upon State banks of issue. It does it again in this: It requires the national banks to pay a tax of one-fourth of 1 per cent each half year on the average amount of its notes in circulation. No such tax is imposed upon State banks of issue. It requires that national banks shall provide a 5 per cent safety fund, while there is no such exaction made upon State banks. It provides that national banks shall issue no bills of denominations less than \$10. State banks may issue bills of these denominations, if they desire to do

so. It imposes on the national banks the necessity of raising within a very short time and depositing in the Treasury their money and of withdrawing their bonds therefrom, thus embarrassing them by a forced revolution of the entire system under which they have been running, an embarrassment which can not possibly rest upon State banks, which have never embarked in issuing notes. They will not be troubled in making a change in respect to systems.

Mr. Chairman, I do not believe there is any national bank in this country that can afford to take out circulating notes in the face of such a discrimination as this. Particularly will they object to guaranteeing the solvency of one another. You never will induce them to accept such a charter so long as they have either the right to suspend the issue of notes altogether or the power to reincorporate under a less rigid State charter as banks of circulation.

It is the unknown and uncertain character of the liability imposed on the national banks which makes it impossible for them to accept the provisions of this bill and to longer engage in the circulation of notes. Mr. Chairman, if these extra and onerous obligations which are imposed on the national banks by this bill are unnecessary to secure a safe currency, then they ought not to be imposed at all. If, on the other hand, they are necessary to the safety of the national bank note, then, by parity of reasoning, you should also impose them on the State banks, and if you fail to do it the notes of these State banks become unsafe in the hands of the holder. One feature or the other of this alternative this committee is bound to accept. Ah, Mr. Chairman, the Secretary of the Treasury himself threw out, unwittingly, a signal of alarm when, in his testimony before the Committee on Banking and Currency, in speaking of the effect of his proposed system as applied to the national-bank notes, he said on one or two occasions:

It will give a system of note circulation which will be perfectly safe—

And yet when he was speaking of the effect with respect to safety of the circulating notes issued under the State bank feature of the bill, he said—

I will not say that it will make a perfectly safe issue; perhaps I ought not to use language so strong as that. I will say, however, that it will make a reasonably safe state note of issue.

Mr. Chairman, has it come to this? Are we to have in this country one note that is perfectly safe and another note that is "reasonably" safe? Why, sir, this is the very thing that begets discriminations and preferences, and leads to lack of uniformity in paper money and all the evils which flow from such a condition. The whole long and short of the matter is this. The national banks will be unable to accept the onerous conditions imposed upon them as banks of issue by this bill. They will have to cease to become banks of issue altogether, and relegate the whole matter to the State banks, or else they will have to cease to be banks of issue as national banks and become banks of issue under the charters enacted by the legislatures of the different States. Either event will give us that system of State-bank circulation which was so ruinous in its effect on this country in time past, and which ought not now to be resurrected from the dishonored grave in which it has slept for thirty years, and sent abroad in the land on a new mission of devastation. [Applause.]

I say, sir, that the proposition to revive a system of State bank issues in this land is, to my mind, the most objectionable of all the objectionable features of this unfortunate bill. The people of this country passed judgment on those banks when, early in the war, they imposed a tax upon them for the purpose of driving their notes out of circulation. The people of many of the States in this Union expressed their opinion of that system when they passed constitutional amendments forbidding the State legislatures to charter such banks under any circumstances.

The distinguished gentleman [Mr. SPRAGUE], the chairman of the committee which reported this bill, hails from a State which has a provision of this kind in its organic law. He did himself infinite credit and honor by speaking and voting against the proposition to repeal the 10 per cent tax on State bank circulation when it was up in the House at the last session of Congress. I am very sorry to see that he has changed the views he then so positively expressed on this subject. I can at present recall no change of individual opinion, sir, in all history, whether sacred or profane, which begins to compare with the transformation which has taken place in his breast in this matter, unless it is that which so suddenly befell Saul of Tarsus; but with the element of sudden revulsion in sentiment, Mr. Chairman, the parallel between these two eminent personages commences and ends, for Saul, if I remember aright, changed to righteousness, whereas the distinguished chairman of the Committee on Banking and Currency has changed to exactly the opposite quality. [Laughter.]

This House on two occasions since I have been a member of it has, by decisive votes, expressed its condemnation of the system of State bank issues. Yet now it is attempted to bring this system again to the front. It seems to me, Mr. Chairman, that there are some people who never have any regard for the law of *res adjudicata*, people to whom it is second nature to be always disturbing the existing order of things. And in this case to what end? Why, the Secretary of the Treasury himself stated on two occasions during the hearings before the Committee on Banking and Currency, in response to questions put to him, that he did not consider the State bank feature of his bill to be a matter of any great importance. He treated it as nonessential. He said he had put it there in deference to a sentiment in certain sections which required it. Yet with this lame and qualified indorsement by the Secretary of the Treasury, the House is asked to pass the bill with this objectionable feature in it. There was not an expert who testified before the committee who did not say that the system was wrong and, if adopted, would result ruinously. They all said that one system under exclusive Federal control was infinitely preferable to a system under state control.

More than that, they all agreed that the Federal control ought to be exclusive and undivided, and that the State banks ought not to be allowed to issue currency at all, even with a provision authorizing the Federal Government to impose certain conditions and restrictions as a prerequisite to such issue. Mr. Chairman, both reason and authority are against this impracticable and dangerous proposition. I have already spoken of the position of the Comptroller of the Currency upon this subject. We tried the State bank system in this country, sir, before the war, and its effects were dis-

astrous. There are doubtless many members here to-day who remember the working of that system and who experienced losses thereby. Some States, I grant you, had excellent laws, faithfully administered, and, as a consequence, those States had good paper money, money which was at par and in some places at a premium. But other States—and I regret to say that they constituted by all odds the largest number—had laws that were defective and were administered with laxity, and as a necessary consequence they had a money which was depreciated. This, of course, produced a lack of uniformity in the paper money. The money of one State frequently would not pass in another State, or, if it did so, it passed only at a great loss to the holder.

The consequence was that discounts were ruinous; money brokers abounded everywhere and did a flourishing business; high rates of exchange were charged; commerce was interdicted and stopped at every State line to yield up the tribute which this inexorable system extorted from it. Failures everywhere occurred; losses aggregating millions of dollars were entailed upon the unfortunate note holders as well as upon depositors. Counterfeiting was everywhere practiced. The vast number of bills which were issued gave to the wrongdoer an ample field in which to ply his infamous vocation to the damage and often to the ruin of the people.

Mr. Chairman, let us hear what Mr. Hugh McCulloch, the former Secretary of the Treasury, said with respect to the State banking system in an address which he delivered at Philadelphia before the American Banking Association in the year 1876. It will clearly show that I have not exaggerated the evils of the system in the least. His language is as follows:

From the time of the expiration of the charter of the United States Bank up to 1861, the State banks furnished the country with its paper circulation, and to a great extent controlled its business. It is not necessary to dwell upon the defects of the State-bank systems, or the character of a considerable part of the notes which the people were compelled to receive and treat as money. There were scarcely two States in the Union whose systems were alike. In some States banks were chartered with proper restrictions upon their discounts and their circulation; in others without any such restrictions. In some there was individual liability, in others no liability whatever, not even in cases of gross mismanagement. In some States the circulation of the banks was secured, partially at least, by mortgages and bonds; in others there was no security except the capital, which was frequently a myth. In some States banking was a monopoly, in others it enjoyed the largest liberty. The consequence was that we had a bank-note circulation frequently worthless, and, when solvent, lacking that uniform value which was needed in business transactions between the citizens of the different States. It is enough to say that the circulation of the State banks was entirely unfitted for a country like ours; that by it the people were subjected to enormous losses, not only in the way of exchanges, but in the inability of a great many of the banks to redeem their notes.

But our friends tell us, Mr. Chairman, that there is no danger that these disasters will be repeated in case we now revive State banks of issue. The honorable Secretary of the Treasury himself so informed the Committee on Banking and Currency when he was before it. Conditions have changed wonderfully since 1861, it is said. The people have grown in intelligence and in knowledge of business and finance, improved methods have supplanted the old ones, and speedy means of communication now exist throughout the country. And these improvements make wildcat banking impossible in this age, is the argument advanced. Sir, I concede that State banks of issue established at this time would

be shorn of many of the imperfections which were incident to the ante-bellum system, but I insist that they would still retain enough of these imperfections to make them dangerous in the extreme. The system would still be radically wrong in principle, and hence of necessity evil in its effects. It would be far more difficult and perplexing for our people to keep track of the legislation, decisions, and administration in currency matters of the various States which compose the Union than it now is for them to familiarize themselves with the national banking laws. Certainly, too, forty-four opportunities for failure and misfortune in paper circulation are much more likely to produce evil effects than one opportunity.

In my humble opinion uniformity of value throughout the country—one of the most vital qualities in a sound paper currency—will be imperiled the very moment we renounce the single and central authority, which now secures it, and trust for its continuance to the independent and unconcerted action of a large number of States. Germany, sir, has been alive to the advantages of a central and simple form of paper money. How long has it been since that great nation took up the various circulating notes of the different Germanic States and substituted therefor a paper currency issued by the General Government? Even though each State of this Union strived earnestly to enact a sound banking and currency law, there will inevitably be many defective laws enacted. The various statutes will differ greatly in their provisions. They will be differently administered and enforced. Preferences in paper money issued under such conditions are sure to occur, and preferences will of necessity beget difference in value. Nor will the example of the States which secure the best systems finally bring the less fortunate States up to the highest standard of excellence. The history of the old State-bank régime proves this conclusively, for the chasms that then existed between the good systems in some States and the bad systems in other States had long existed and were never bridged.

It is absurd, too, Mr. Chairman, to assert that bad State-bank paper money can not get out and circulate in the event the State-bank system is revived. Gentlemen talk about people refusing to take depreciated paper! Why, sir, the history of the financial world will have to be rewritten if this is true, for it shows beyond question that bad paper money does get out and circulate, and it shows, too, that such money circulates in the same neighborhood where good paper notes are also current. Did not this often happen, sir, when the State banks of issue were in operation in our own country before the war? The exigencies of business, the necessities of men, and many circumstances of virtual duress often oblige people to pay out and receive depreciated notes. Let us remember, also, that individuals are often led to accept, under the belief that they are sound, circulating notes which subsequently depreciate in their hands. The poor man and the laborer must receive this kind of money. He may have an option with respect to it, but he has no choice. His pressing necessities forbid hesitation. He must accept it or starve. Of all men on earth, Mr. Chairman, the weak and the needy are invariably the surest victims of a depreciated paper currency, and hence most interested in the defeat of the pending bill.

Gentlemen complain because money is plentier and cheaper in

the centers of business and finance than it is in the agricultural and sparsely settled sections of the country, and affect to think that the issue of paper money by State banks will remedy this. Give us money which will stay at home, is their cry. Mr. Chairman, money collects in the great centers because it can be employed there. It is loaned there at a low rate of interest because the loan is for a short time and the securities are good and easily realized upon. Money can not afford to stay where it is in demand only at a certain period of the year, nor can it be loaned by banks at low rates of interest where it is wanted upon long time and upon real estate security. These are, perhaps, among the reasons why money is scarce and interest high in certain sections during the crop-moving seasons. Banks, sir, will not be established where there is not sufficient business to make them profitable; nor will money go where there is neither services, commodities, nor securities to give for it; nor will any system which can be devised after this inflexible law. Paper money which will stay at home, too, is quite likely, sir, to be such as is below par. We do not want such money as this. We are a homogeneous people—a business and trading people. We do not care to be embarrassed by paper which is restricted in circulation and passes beyond State lines at a ruinous discount, if in fact it can be passed there at all. What our convenience and interests require is a paper currency which will circulate in every section of our common country at par. Nor can I conceive of any legitimate need in any community in this country for a paper currency which can not be more safely supplied to it through a wisely devised system of circulating notes under national control than through a system of State banks of issue created by the legislatures of the various States. To the truth of this proposition, sir, the experts who were heard before the Committee on Banking and Currency gave their unqualified assent.

But we are told, Mr. Chairman, that there are certain limitations and conditions imposed in this bill upon State banks which will make the notes they issue perfectly safe; that there is contemplated not an absolute but simply a conditional repeal of the 10 per cent tax on State-bank circulation. Sir, I deny that the conditions imposed are sufficient to secure safety to the notes. To say so is mere idle assertion. It is dogmatism. The truth is that this bill provides simply the shadow and omits the substance of Federal control; that it leaves each State virtually free to devise such a system of note circulation as in its independent and sovereign judgment it sees fit to put upon its statute books. Why, sir, all the conditions and limitations which are imposed by this bill upon State banks appeared in the charters of many of the old State banks which existed before the war; yet despite this fact the notes of those banks were at a discount and the banks themselves frequently failed. This grew out of the fact that those conditions and limitations were not sufficient, that they did not go far enough, and also out of the fact that there was laxity in the administrative control of the conduct and affairs of the banks.

Ah, gentlemen, dwell not so much upon the national safeguards which are imposed by this bill, but reflect rather upon such as are omitted from it. Let me enumerate to you a number of provi-

sions which are thought indispensable to the safety of the money issued by national banks, but which are eliminated from this measure with respect to the issues of State banks. There are omitted, so far as the latter banks are concerned, provisions for examinations into the character of the proposed incorporators when they apply to take out charters; for investigations to ascertain whether the associations are in good faith organized for banking purposes; for the prompt payment of all the capital stock in the first place and its subsequent restoration in case it becomes impaired. There are omitted provisions defining the qualifications of directors, and against lending more than one-tenth of the capital stock of the banks to any one person or firm; prohibiting loans of the money of the bank on its own stock; prohibiting loans on the security of real estate. There is left out provision for five annual reports to be made under oath by the officers of the bank to the Comptroller of the Currency, setting out its true condition, and empowering that officer to require of it still further reports in the event he deems them necessary. All provisions for inspections and examinations by trained experts of the Government into the conduct of the affairs of the bank with a view to protecting its note holders and depositors are also omitted. And here, too, is the imposition of a safety-fund tax upon the national banks and a provision that each bank shall be liable for the debts of every other bank—provisions which are not extended to the State banks at all. Mr. Chairman, can we afford to trust a State-bank system launched upon the sea of business with so little rigging as this frail craft?

But we are told that the States will themselves impose upon their banks of issue the limitations and restraints omitted from this bill. This, too, is mere dogmatism and arrogant assumption. Will the States do it? Doubtless some of them will, but some of them will not, and either through failure to provide proper charter restraints or failure to rigidly enforce such restraints as are provided some banks will be sure to issue money which is bad and thus entail upon the business world the evils which flow from a discredited currency. Sir, the mere provisions of a banking charter are so much waste paper; it is the rigid enforcement of such provisions which insures sound banks for the depositors, as well as for the note holders. It is this close surveillance over the banks by the Federal Government which is the strongest feature of the national banking system and the most conspicuous element of its success.

It is argued, Mr. Chairman, that State banks will be deterred from issuing circulating notes in violation of the terms of this measure by the dread of incurring the 10 per cent tax on unlawful circulation to which they will be liable if they fail to comply with the requirements imposed on them in the bill. This deterrent, it will be observed, sir, is not in the nature of a criminal prosecution. Those who fail to comply with the requirements are not punishable by fine or imprisonment. It is a mere penalty. All history and business experience demonstrate that a penalty is never sufficient to restrain bad management of banks. "An ounce of prevention is worth a pound of cure." Banks should not be punished by penalty after they have violated the law and after the note holders and depositors have been subjected to loss. They

should be so rigidly guarded and inspected in advance that no opportunity is afforded to them to inflict the loss at all. The imposition of a penalty is nothing more nor less than the closing of the stable door after the horse has been stolen.

And look, too, at the lame provisions with respect to this penalty for which so much is claimed. Under this proposed law the Government officials are not to see in advance that the banks have complied with the conditions and then exempt them from taxation for the year to come. This 10 per cent tax is payable once a year. Under the provisions of this bill, the moment it is enacted into law, a bank may proceed at once to take out its circulation as a bank of issue. It need not satisfy the taxing power that it has complied with the conditions imposed by the law until the year rolls round and the time comes to assess the tax. Then for the first time it must make a showing as to its compliance.

Now, behold what an opportunity for evasion and abuse is here presented. Notwithstanding this bill, a State bank may incorporate as a bank of issue and may issue its notes and receive deposits and carry on its business for a whole year, without either complying or showing compliance with any of the Federal conditions. It may be badly managed, and when the time comes to obtain exemption from the 10 per cent tax by showing compliance with the conditions of the bill it may be in a condition of hopeless insolvency. What terror, sir, would the 10 per cent tax on the lawless circulation it had issued have to this worthless bank or its insolvent managers? And if, perchance, there are any assets left, the Government steps in and inexorably exacts its 10 per cent penalty, and thus simply cuts down to that extent the amount that ought to go to the note holders and depositors in mitigation of their losses.

Again, Mr. Chairman, if a national bank fails, under our existing system a receiver at once takes possession of its assets. The notes of the bank are all paid by the Government. There is no loss to the note holders; the Government reimburses itself from the bonds deposited to secure the circulation, and the assets of the failed bank are promptly administered under a uniform system of procedure—a system which is the same throughout all parts of the land. The creditors of the bank, its depositors—all those persons who have a claim upon it—know precisely what system of liquidation is to be pursued and when and in what manner they will realize on their claims.

But if the mongrel system which is here proposed is adopted, and State banks of issue are authorized, and a bank fails, the administration of its assets goes into the hands of the State court of the State in which it is located. We have now forty-four States in the Union, and the process of liquidation will thus vary according to the requirements of the law in each individual State. There will be no uniformity, no regularity in the system. All certainty is to be discarded, and the note holder, the depositor, and the creditor of the bank, and all of the business world interested in its affairs, are to be left in doubt and perplexity as to when and in what manner it will be possible for them to realize on their claims from the remaining assets.

We have heard, Mr. Chairman, a great deal about "simplicity" being a very desirable thing in our paper currency. That it is

desirable no man will question. We have already too many varieties of paper money in circulation. Statesmanship should devise a plan to put them all into one. But here is a system which departs from this cardinal principle, and instead of giving us simplicity actually creates multiplicity in this regard. It proposes to take up of the paper money in circulation only a small portion of two particular kinds, the greenbacks and Treasury notes of 1890; but all the balance of our paper money is to remain outstanding, except the present national bank notes, and to this is to be added the notes of the banks of issue of forty-four different States composing the American Union.

Now, Mr. Chairman, in conclusion I wish to refer to the last section of this bill, that portion of the bill which relates to the distinctive paper upon which the proposed State banks may print their notes of issue. It will be observed that this last section, section 11 of the bill, is as follows:

Sec. 11. That the Secretary of the Treasury may, under proper rules and regulations to be established by him, permit State banks to procure and use in the preparation of their notes the distinctive paper used in printing United States securities; but no State bank shall print or engrave its notes in similitude of a United States note or certificate or national bank note.

It is apparent, sir, that this section does not make it imperative on the State banks to obtain the distinctive paper of the Federal Government and to print their notes thereon. The language is merely permissive. It simply says that they "may" do so. But suppose a bank fails or refuses to do this? Then its notes are lacking in the distinctive paper, which is one of the recognized safeguards against counterfeiting in this country.

Suppose, still further, that a State bank wants to get the paper. There is no provision in this measure requiring the Secretary of the Treasury to furnish it. The language in this connection also is simply permissive. So the possibilities of successful counterfeiting in the United States are manifestly increased by the provisions of the pending bill, which while it vastly increases the variety of our circulating notes, makes it easy to avoid in the printing of them the use of distinctive paper. Each State can have its own particular kind of paper, and the scope of the artful counterfeiter is, as I have just said, thereby greatly enlarged. But even if all the State banks apply for the distinctive paper and the Secretary of the Treasury furnishes it on demand, and their notes are printed thereon, still there is another great check to counterfeiting which is not provided for in this measure in connection with State bank issues, and that is the skillful system of engraving and printing which the Government now adopts in printing its notes and obligations. There is no provision that the State banks shall avail themselves of this safeguard, or even that they may do so. Why was so important a matter as this not provided for? Of what avail, even, is distinctive paper in State bank notes if there is to be both inferiority and variety in the character of their engraving? Will such a loose system discourage forgery and protect the citizen?

But there is still another thing which has tended largely to prevent successful counterfeiting in this country—a thing which has operated as a powerful deterrent upon wrongdoing. The National Government not only uses this distinctive paper and en-



graves and prints its obligations with wonderful skill, but it also maintains a secret detective service throughout the country, whose adroit and experienced agents are constantly preventing infractions of the currency laws in some instances and apprehending and dragging to justice the offenders in other instances.

Mr. Chairman, the General Government is not hampered in this system of detection and apprehension by conflicting jurisdictions and territorial restraints. It is not compelled to pay regard to State lines in its work. It is both simple and central in authority. It is coextensive with and operates all over the country, from North to South and from East to West. But the States are absolutely incapable, in the very nature of things, of organizing a broad and effective system for apprehending counterfeiters and preventing counterfeiting such as this. The jurisdiction of a State extends only to its own boundaries. It can reach beyond for the apprehension and bringing to justice of offenders only by means of a requisition, which is often difficult to obtain and slow in operation. Sir, if we desire to save the American people from a return of that system of counterfeiting which was so prolific a source of loss in the past, we must absolutely do away with a bill whose eleventh section is of such a character that it will necessarily invite it.

Mr. Chairman, there are some other things that I should like to refer to, but I feel that I have already trespassed too long upon the patience of the committee, which has been generous enough to extend my time, and I therefore will show myself at least to some degree worthy of it by stopping right here and giving other gentlemen the opportunity to take the floor, asking, however, the privilege, if it has not been already generally granted to members, to somewhat extend my remarks in the RECORD upon the omitted branch of the subject. [Applause upon the Republican side.]

Mr. COOPER of Indiana. I want to ask my colleague a question. I am very much interested in what he has been saying.

Mr. JOHNSON of Indiana. I will hear the gentleman and answer him as best I can, if he desires to propound a question, providing the committee is willing.

Mr. COOPER of Indiana. In your investigation of this subject, both as an individual member of the House and as a member of the committee, has it not been developed to your satisfaction that the existing condition of affairs—that is, the existing national banking system—is unsatisfactory in its operation?

Mr. JOHNSON of Indiana. There has been a diversity of opinion among people upon that subject. In my opinion, in some respects the law works admirably, but—

Mr. COOPER of Indiana. Among the witnesses who testified before the committee, national bankers and experts, did they not agree that the existing conditions were not adequate to the demands of the public for a circulating medium?

Mr. JOHNSON of Indiana. Yes; there was a unanimity of opinion upon that subject, viz, that there was probably not, under the existing national banking system, quite enough elasticity to the currency at certain periods.

Mr. COOPER of Indiana. Is it not true that the national banks as now organized do not furnish one-tenth of the currency which the people have?

Mr. JOHNSON of Indiana. It is true that they furnish but a

small proportion of the currency. There is no profit to them in circulating notes, and they have not the field entirely to themselves.

Mr. COOPER of Indiana. I should like to ask my colleague if the minority have agreed upon any measure to relieve us from these conditions, or if they have any suggestions to make? The argument which the gentleman has made is in the nature of a demurrer to the pending bill, but I should like to know whether any suggestions have come from the other side for the relief of existing conditions.

Mr. JOHNSON of Indiana. Mr. Chairman, the minority of the committee have not advanced any proposition of their own. They were not permitted to suggest anything in the committee room. They expected that there would be something like an exchange of views upon this measure there before it was presented to the House, and had that been allowed or had the disposition of the majority of the committee warranted the belief that a proposition upon the part of the minority would have received anything like respectful consideration, it would have been advanced. Let me say, however, that it is not the province of the minority just now to formulate any particular kind of a bill. Gentlemen upon the other side of the Chamber are in the majority. It is incumbent upon them to formulate legislation and bring in any banking and currency system that may be needed, and if they will submit a measure which is good and meets with my approbation I will yield it a cordial support.

Let me say further that while the minority of the committee as a body have not offered any measure, yet the gentleman from Massachusetts [Mr. WALKER], as an individual member of this House, has drawn a bill on the subject which in my judgment is infinitely superior to the one reported by the committee. And let me say further that in the course of my remarks—if the gentleman did me the honor to listen to me—I outlined a scheme which, while I said I did not think it perfect, is infinitely preferable to the one now presented in the bill undergoing discussion.

My idea is this, Mr. Chairman: What we want now is a careful consideration of present conditions, without any indecent haste, and such safe and conservative legislation along existing lines as will not in the present crisis be too experimental and too great a departure, considering the unsettled condition of our business affairs. [Applause on the Republican side.] Such experimental legislation, such radical changes, such extreme reforms, as are proposed in the pending bill will defeat the very purpose that the movers of them pretend to have in view, and will not only not mitigate but will greatly increase the difficulties under which the American people are now laboring.

Mr. HENDERSON of Iowa. I suggest to the gentleman that he strike out the word "reform."

Mr. JOHNSON of Indiana. I admit that the word "reform" has been a much-abused word. I use it, however, in its proper sense, without intending that it shall be so amplified as to include all the wild vagaries of unhealthy banking and unsound finance which are now being aired.

Mr. COOPER of Indiana. One more question, if you please. You have been very kind to me. When you say "along existing

lines," do you mean by that that it is your idea that you would perpetuate the national debt for the purpose of perpetuating existing banking systems?

Mr. JOHNSON of Indiana. Mr. Chairman, I would rather perpetuate the national debt than inflict untold losses and calamities upon the great American business public and the great American people. Of two alternatives I would always choose the safer. I would legislate conservatively now to tide us over existing conditions, and then when times become calmer I would proceed slowly and thoughtfully and deliberately to inquire what evils there are in the existing system, and would try to correct them so as to give to the people a substantial measure of banking and currency reform. I hope the gentlemen from Iowa [Mr. HENDERSON] will pardon me for again using the word "reform." I used it inadvertently and perhaps I will eliminate it from the RECORD when I come to revise my remarks.

I now ask permission to extend my remarks in the RECORD to cover certain omitted points.

The CHAIRMAN. The gentleman from Indiana [Mr. JOHNSON] asks unanimous consent to extend his remarks in the RECORD. Is there objection?

There was no objection.

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